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UNFPA INTERNAL AUDIT AND OVERSIGHT ACTIVITIES IN 1997

Report of the Executive Director

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1. This report provides the Executive Board with a summary of internal audit and oversight activities of the United Nations Population Fund in 1997. It outlines the key issues in the findings of internal audits and in the activities of the UNFPA Office of Oversight and Evaluation. The report is being submitted in response to a request made by the Executive Board at the second regular session in 1996.

I. ORGANIZATION AND RESOURCES

2. Under the provisions of UNFPA Financial Rule 114.18, the Executive Director has arranged with the Administrator of UNDP for the internal audit services of the Fund to be undertaken by the UNDP Office of Audit and Performance Review (OAPR). The Executive Board may also wish to refer to the report of the Administrator on UNDP internal audit and oversight activities, which is also being submitted to the Board at this same session (document DP/1998/26).

3. The UNFPA Internal Audit Section became operational in May 1993 and consists of a Chief, one Audit Specialist and one support staff. With such limited staff resources, it is not possible for the Section to provide adequate audit coverage of all UNFPA units within the optimal cycle of five to seven years. Consequently, the Section has sought to expand coverage of audit activities through the use of consultants.

4. Most of this consultancy work is undertaken for both UNDP and UNFPA under the same contract and is carried out by public accounting firms of known repute under the supervision of the UNDP Regional Audit Service Centres in Harare and Kuala Lumpur. In the case of UNFPA, the firms examine the annual accounts of all offices where a UNFPA-appointed Representative is assigned and conduct audits of the extent to which these offices have complied with financial and administrative regulations.

5. Up to November 1997, the reports prepared by the public accounting firms were reviewed and issued by the UNFPA Internal Audit Section. Since November 1997, additional professional staff have been assigned to the Regional Audit Service Centres, which will henceforth be reviewing and issuing the reports.

6. During 1997, 32 UNFPA country offices in the Africa region were covered under such a contract for audit services. In view of the fact that most of the offices in the Asia and Pacific region were rated satisfactory during 1996, OAPR decided to conduct such audits on a biennial basis. The contract for audit services in the region, therefore, was not renewed for 1997. OAPR is consulting with UNFPA to identify contractors to carry out audits in the Asia and Pacific and the Africa regions during 1998 and

1999. It is also planned to initiate the contracting process for the Latin America and Caribbean region in 1998, with audits to be carried out during 1999 and 2000.

7. The Office of Oversight and Evaluation (OOE), an organizational entity established in late 1996 that reports directly to the Executive Director, is the focal point for internal oversight within UNFPA. The Office is responsible for ensuring that the findings and recommendations of all oversight functions at UNFPA are acted upon and reflected, as necessary, in decision-making on organizational management, policies and procedures. In this connection, it also makes proposals to the Fund's senior management concerning institutional development. Towards this end, besides managing the conduct of policy application reviews and of thematic evaluations and ad hoc independent evaluations of major projects and programmes, the OOE works in liaison with OAPR concerning internal audits of UNFPA operations. It monitors follow-up to audit activities; reports to the Executive Director on trends in the findings of internal and external audits, policy application reviews and evaluations; and proposes measures to strengthen organizational and programme processes. In addition, audit and oversight issues are discussed regularly by the UNFPA Executive Committee, which is composed of the senior management of the Fund.

II. INTERNAL AUDIT ACTIVITIES IN 1997

8. The internal audit activities carried out in 1997 include the following:

(a) Management audits in three country offices and in one Country Support Team (CST) office;
(b) Compliance audits in 32 countries in the Africa region undertaken by one public accounting firm;
(c) A review of one branch at UNFPA headquarters;
(d) A review of project closing procedures;
(e) A review of the delegation of authority to the Executive Director on personnel issues.

9. The Executive Director is satisfied with the services provided by the UNFPA Internal Audit Section/OAPR, which successfully implemented a broad work plan in 1997 despite limited resources. The management audits provided valuable information that will be of use in strengthening the internal control structures and performance of UNFPA.

10. The annual audit work plan was developed by the Section in close consultation with the UNFPA Deputy Executive Director (Policy and Administration) and the UNFPA Office of Oversight and Evaluation. The work plans of the Section and OOE were coordinated to the extent feasible. The Section work plan was revised periodically to accommodate special audit requests that arose during the year.

11. Staff development is important to meet the evolving challenges in the field of audit and oversight. In this respect, during 1997 the staff of the Section received one week of training in investigation as well as training in teamwork and risk assessment.

12. During the year, the Internal Audit Section offered advisory services to UNFPA units, some of which were solicited by the units, while others were initiated by the Section following management audits. The Section also provided briefings to UNFPA Representatives on mission at headquarters, taking advantage of such opportunities to reinforce the need for internal controls.

III. PRINCIPAL AUDIT FINDINGS AND ACTIONS TAKEN

13. In general, the country offices in the Africa and Asia and Pacific regions were rated **Satisfactory** based on the audit work performed by the contractors. Of 43 reports issued in 1997 (covering both 1996 audits for which reports were issued during 1997 and early 1997 audits) the level of internal controls and the compliance with financial and administrative requirements were found to be **Satisfactory** in most offices, with three offices receiving a **Good** rating. However, eight offices were rated **Marginally Deficient** in at least one area of the operations (for one office the report covered only office automation). The Section issued 637 recommendations during the year based on audits conducted in 1996 and 1997, which can be broken down as follows:

Area	No. of recommendations
Programme matters	204
Financial operations	93
Personnel administration	129
General administration	130
Office automation	81
Total	637

The following issues require attention:

Case of fraud

14. In one country office, a temporary Finance Assistant committed a fraud estimated at $5,300. The individual used office car-rental vouchers for private purposes and procured unauthorized cellular telephones and computer software.

15. The fraud was discovered by the country office before the audit, and the case is still being investigated by the local police. In addition, UNFPA has addressed the auditors' observations by reinforcing and strengthening the relevant internal control mechanisms in the country office.

Policies and procedures

16. The absence of a consolidated set of policies and procedures continued to be an issue. A task force was created by the Executive Director in October 1996 to issue a consolidated set of manuals on policies and procedures. The work of the task force is nearing completion. The Manual on Programme Policies and Procedures is 80 per cent completed, and a major portion of this manual was formally issued in November 1997.

17. A number of UNDP procedures are followed in the absence of specific UNFPA procedures, particularly with respect to financial, personnel and administrative matters. There has at times been a lack of clarity on what procedures to follow in a given situation. Such procedures will be clarified, however, as the relevant portions of the new UNFPA manuals are issued.

Project closing procedures

18. The review of project closing procedures revealed that about 2,000 projects are awaiting financial completion. Related to this, there are unspent balances of UNFPA funds in operationally completed projects that have yet to be recovered. In addition, the review noted a lack of compliance with closure requirements as well as poor monitoring over the closing of projects. UNFPA has been studying these matters for some time, commissioning a review of such closing procedures by consultants. The Fund also took the preliminary action of issuing a circular on Project Closure/Completion in June 1997, prior to the completion of the review. Issues related to closure of projects are highlighted in relevant sections of the new UNFPA Programme and Finance Manuals. In addition, UNFPA has taken measures to close completed projects and, as a result, 435 projects were closed in 1997. Both programme and finance units have been alerted to monitor closely unspent balances. The matter will be also followed up through periodic reviews of the status of financially completed projects.

Delegation of authority

19. The review on delegation of authority to the Executive Director pointed out that the approval of the General Assembly and subsequent delegation of authority from the Secretary-General to the Executive Director is required before the latter may appoint, promote and terminate the staff of the Fund and before a further delegation of authority to the Representatives in the field is granted. Also, the auditors noted that it would be appropriate to have a memorandum of understanding between UNDP

and UNFPA clearly defining the lines of authority and the responsibilities of each organization with respect to both headquarters and field personnel. UNFPA recognizes the need to clarify the lines of authority, keeping in view the administrative reforms being undertaken by the Secretary-General. Consultations have been initiated with UNDP regarding a memorandum of understanding to formalize present arrangements. In keeping with the principle of common services, the Executive Director intends to continue to make use of the services of UNDP with respect to personnel administration. The responsibilities and procedures between UNDP and UNFPA with respect to both headquarters and field personnel are clarified in the new UNFPA Personnel Manual to be issued in 1998.

Coordination and Training Branch

20. The review of the Coordination and Training Branch in the Planning and Coordination Division revealed that the procedures on procurement were not always followed. For example, services provided were not typically covered by a contract; requests for waivers were done on a regular rather than on an exceptional basis; sealed bids were not always obtained; and cost comparison was not generally performed. The Training Branch, located in the newly established Office of Personnel and Training, and other concerned parties have been instructed to exercise better internal control and to comply with established procedures.

Summary of major issues

21. The following is a summary of recurrent issues, classified by subject, raised by the auditors and contractors in connection with country office audits.

Programme

22. There is a need to strengthen the monitoring of programme activities and expenditure as well as to start project activities only after the project document has been signed. In addition, Letters of Understanding should be signed for all projects and should include the list of officials authorized to request funds and to certify expenditure. In response to the auditors' observation, country offices have been instructed to authorize advances only after the project document has been signed. In addition, the new programming guidelines underscore the need to select verifiable indicators to facilitate programme monitoring and urge country offices to maintain programme monitoring schedules.

Finance

23. In some cases, country office Status of Allotment Reports were not submitted to headquarters on time and reconciled with the financial report provided by UNDP. Concerned country offices have

been instructed to expedite the submission of reports so that they can be reconciled with the UNDP report as soon as possible.

Administration

24. Common services provided by UNDP were generally not covered by a contract. In some country offices, office procurement in excess of $70,000 was not reviewed by the Contract Review Committee. Further, the controls over office vehicles, petrol coupons and office equipment needed strengthening. UNFPA has instructed concerned offices to exercise tighter control in these areas and underscored, in this connection, the need to adhere to established procedures.

Personnel

25. There is a need for conducting the Performance Appraisal Review process in a timely manner, for improving maintenance of leave and attendance records and for training staff on UNIFOS (UNFPA Integrated Field Office System).

26. The reassignment of staff has sometimes impacted adversely on the timeliness of performance appraisal. Concerned offices have been instructed to improve management of leave records. With respect to training, UNFPA organized two Finance/UNIFOS workshops in Africa in 1997 and has scheduled similar workshops in the Arab States and Europe, Asia and the Pacific and the Latin America and Caribbean regions for 1998.

Office automation

27. The auditors observed several cases where the maintenance of software and hardware was not covered by a contract, back-up procedures were not always followed and a disaster and recovery plan had generally not been prepared. The absence of some controls and problems related to the use of the UNIFOS software were also noted. The Fund's MIS Branch has drafted guidelines for office automation that address the auditors' concerns. The guidelines will be issued in 1998.

IV. ANALYSIS OF MID-TERM REVIEWS OF COUNTRY PROGRAMMES

28. The Office of Oversight and Evaluation undertook in 1997 an analysis of the mid-term reviews (MTRs) of UNFPA-supported country programmes that took place in 1995-1996. In all, 31 such reviews were analysed. The purpose of the analysis was to identify issues and problems, both technical and operational, in order to derive lessons to contribute towards the improvement of existing policies and procedures. It also served the purpose of regular monitoring of organization-wide programme management. The study examined the process of the MTRs, their findings and recommendations and

the role played by the Fund's Programme Review Committee (PRC) at headquarters. The findings and recommendations of the analysis, which are summarized below, were given due attention in the preparation of the programme manual, particularly the chapter on monitoring.

29. With reference to the MTR process, it was found that most MTRs took place later than the mid-point of the programme period due to the slow take-off of programmes. The depth of analysis was often constrained by unclear statements of programme objectives and expected results, the lack of performance indicators, and the tendency of programme data to be input-oriented. Despite the lack of guidelines, there was a certain uniformity in the kind of information presented in MTR reports but not in the depth of the analysis or the format of the reports. Of the 31 MTRs, 21 were subsequently discussed in the PRC at headquarters. The revised guidelines on monitoring made a deliberate effort to clarify these issues related to the MTR process, and the application of the logical framework analysis in programming should serve to ensure more systematic, productive MTRs. It is instructive to note that the MTRs should be both retrospective as well as forward-looking: they not only serve as a review of the status of programme performance but also provide an occasion to revisit evaluation plans as well as to determine arrangements for the country population assessment exercise that serves as the basis for the development of the next phase of UNFPA support.

30. With regard to substantive programme matters, in most instances programme objectives and strategies were found to be of continued relevance except in cases where political unrest or changes of government had disrupted programming or had affected policies. About 80 per cent of the MTRs contained recommendations for redistributing resources among activities or for providing additional inputs from UNFPA; not all of these latter recommendations received a positive response. Many country programmes tried to shift from the old programme categories to the three post-ICPD core programme areas. In the process of recasting programmes, it was evident that the categorization of advocacy activities needed further refinement. The issuance of guidelines on advocacy should rectify this problem. It was also evident from the MTR recommendations that the ICPD had contributed to raising awareness in areas such as adolescent needs, infertility, sexually transmitted diseases (STDs) and HIV/AIDS, as well as male involvement in reproductive health programmes.

31. The MTRs identified numerous factors that contributed to programme implementation. These included political commitment and a favourable political environment to address population issues; decentralization in decision-making both within government/project structures as well as within UNFPA; use of the local Project Appraisal Committee (PAC) mechanism to appraise project proposals; the involvement of NGOs, particularly with respect to women's empowerment and reproductive health; and the use of a participatory approach to project identification, development and reviews. The MTR reports also identified many constraints to programme implementation. Many are beyond the purview of UNFPA because they refer to the decision-making and management structures of Governments. Others, however, can be addressed or facilitated with UNFPA's assistance including the shortage of

trained personnel; lack of data on reproductive health indicators; lack of coordination in information, education and communications (IEC) activities; and certain cultural factors inhibiting acceptance of family planning and the promotion of women. These need to be factored realistically into programme development. Identification of risks and assumptions in the logical framework as well as stakeholder analysis should result in a pragmatic programme strategy. At the same time, since many constraints relate to national capacity, there is need to be more systematic in programming for capacity-building and to prioritize the tasks that CSTs should work on to ensure optimal use of the team advisers' time. This is reflected in the revised TSS guidelines issued in late 1997.

32. All UNFPA-supported country programmes will undergo a MTR in each programme cycle. The analysis of the outcome of MTRs will be conducted on an annual basis.

V. POLICY APPLICATION REVIEWS

33. Policy application reviews were conducted in six countries in 1997 -- three in Asia and the Pacific region and one each in Africa, Latin America and the Caribbean, and Arab States and Europe regions. These reviews, which are internal exercises, examined in depth the process of programme development and implementation in order to ascertain that appropriate mechanisms to ensure accountability are in place and are being utilized by UNFPA staff. In addition, steps taken to achieve UNFPA's mission, particularly in promoting the implementation of the ICPD Programme of Action, are also reviewed, together with the country office's role in the Resident Coordinator system. Moreover, the opportunity is also taken to assess the relevance and ease of understanding of UNFPA policies and procedures and to identify areas where greater clarity in programme policy and technical guidance are needed.

34. The findings of these reviews, which are discussed in depth in the Fund's Executive Committee chaired by the Executive Director, not only provided senior management with snapshots of how selected country offices are performing their programme managerial and advisory roles, but also served as a conduit for field staff to comment on the nature and quality of support they receive, and need to receive, from the CSTs and from UNFPA headquarters. These reviews have provided invaluable inputs to the preparation of the comprehensive policies and procedures manual, particularly the programme manual, and their recommendations are being actively addressed by UNFPA at the highest levels.

35. The Executive Director, in consultation with the Executive Committee, determines the follow-up needed in response to each review. Responsible parties in the field or at headquarters, as appropriate, are assigned. The Division(s) concerned are accountable for the implementation of follow-up action related to specific programmes and for reporting to the Executive Committee on the outcome of these efforts. The Office of Oversight and Evaluation is responsible for monitoring and reporting on follow-up actions at the Fund-wide level.

36. In all six programmes reviewed, the country offices had been actively engaged in promoting the implementation of the ICPD Programme of Action, in particular among government officials, parliamentarians, opinion leaders and media representatives. The outcome of such advocacy is evidenced by the elaboration of official policies, strategies and action plans pertaining to reproductive health, gender issues and adolescent reproductive health. However, the operationalization of reproductive health had, in some cases, been constrained by institutional arrangements resulting from the past vertical approach to service delivery. The focus on gender and adolescent issues is evident at the political level as well as in programme planning.

37. Deliberate efforts had been made to involve national NGOs in UNFPA-supported programmes. Not all Governments were enthusiastic about such overtures in that NGOs were regarded as competitors for limited resources. The number of national NGOs with good capacity for project execution, however, remains few.

38. With regard to resource mobilization, there is evidence of successful efforts in two countries, in one case with regard to both domestic as well as external resources. In general, estimations of multi-bilateral inputs to UNFPA-supported programmes in the past have proved over-optimistic, and UNFPA reached the higher funding level of programmes only when additional regular resources became available.

39. The Resident Coordinator system appears to be functioning actively in almost all instances, as evidenced by regular meetings of agency heads and the establishment of numerous theme groups, which have mainly served an information-sharing and coordination function. However, the effects of this activity are not commensurate with the amount of time spent in consultations. UNFPA country offices participated actively in inter-agency groups, particularly UNAIDS and groups pertaining to reproductive health and gender.

40. The programmes reviewed generally adhered to the approved programme framework. There had been a tendency; however, for many projects to be carried over from programme cycle to programme cycle. On the one hand, this helped to maintain the momentum of programme delivery while new projects were being prepared. On the other hand, it delayed the application of a programme approach and/or new strategies.

41. In most cases, procedures were followed in the use of decentralized approval authority. Such authority has not only expedited programme delivery but also promoted closer collaboration between UNFPA and its counterparts in the Government. In one case, the review noted the decentralized approval of a sizeable project comprising components outside UNFPA's mandate. The project was terminated some time ago, and the gravity of the situation was impressed upon the concerned units.

42. Country offices without exception recognized the need to strengthen the substantive aspects of programmes in order to discharge their responsibilities adequately. The need to update country office staff in technical and substantive aspects of the Fund's three core programme areas, especially advocacy, was therefore repeatedly highlighted in the policy application reviews.

43. Four of the six offices made good use of the Project Appraisal Committee mechanism. Issues were raised, however, regarding membership on the committees and the quality of discussions. In two cases, UNFPA participated in the appraisal of projects of other United Nations organizations.

44. UNFPA has had a significant role in programme execution in all six countries, in four of them mainly in procurement of equipment and supplies. Even when UNFPA is not designated as executing agency, the country offices are often heavily involved in supporting national execution due primarily to the need to supplement the limited managerial capacity of government agencies and other national institutions.

45. The policy application reviews found that country offices had made considerable use of national experts, particularly in project reviews and evaluation. Nonetheless, more has to be done to systematize and institutionalize this process. The rudiments of a national consultant roster exist in some offices, but the management of such rosters needs to be systematized. Country offices did prepare technical backstopping plans, but not all of them complied with the guidelines. There was also a lack of clarity as to how to identify and access technical assistance that was not available within the CSTs. The technical assistance provided did not always place adequate emphasis on national capacity-building in terms of transfer of skills and knowledge.

46. Three of the six programmes had used the National Project Professional Personnel mechanism to support programme implementation. However, compliance with the intent and procedures of the mechanism had been inconsistent, which pointed to a need for greater clarity in the policy.

47. Local procurement has been effected through different arrangements, ranging from an entirely in-house exercise to the involvement of both the Government and UNDP. In all cases, a process of bidding is followed. It is generally agreed that local procurement ensures better follow-up and maintenance. There is general satisfaction with headquarters procurement although it was emphasized that quality and appropriateness to local conditions should have higher priority than price in product selection.

48. In some countries, monitoring had been undertaken with a project-based rather than programme-based approach. The reviews found that the monitoring of programmes had not always kept pace with evolving policies. Neither process nor output indicators were consistently established or applied. Country offices tended to take an ad hoc rather than systematic approach to field monitoring visits.

Still, with the exception of one programme, most projects were evaluated, usually by national consultants with the support and guidance of CSTs.

49. Umbrella project funds were used for the purposes intended, although there were occasional problems meeting unexpected requests within the budget of such projects.

50. Despite generally good support provided by desk officers, communication between country offices and headquarters units is sometimes less than optimal. Important decisions and their rationale were not always recorded adequately, making it difficult at times to establish accountability in certain actions. This was also true for the monitoring practices by headquarters units, which need to be rationalized in light of increasing decentralization to the field.

51. The Executive Director will continue her efforts to ensure probity and accountability in an environment of increasing decentralization. The collaborative relationship with OAPR has enabled optimal use of limited human resources in regard to internal audits. The establishment of the Office of Oversight and Evaluation has also contributed to an accountability culture that incorporates a mechanism for feedback and dialogue on policy and institutional development.

VI. RECOMMENDATION

52. The Executive Board may wish to:

(a) Take note of the present report;
(b) Express support for strengthening the internal audit and oversight capacity of UNFPA.

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